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OSCODA AREA SCHOOLS
IOSCO AND ALCONA COUNTIES, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2008

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AUDITORS' REPORT

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 6
<u>BASIC FINANCIAL STATEMENTS</u>	
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u>	
STATEMENT OF NET ASSETS	7
STATEMENT OF ACTIVITIES	8
<u>FUND FINANCIAL STATEMENTS</u>	
BALANCE SHEET - GOVERNMENTAL FUNDS	9
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	10
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	11
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	12
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUND	13
NOTES TO FINANCIAL STATEMENTS	14 - 29
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	30
<u>OTHER INFORMATION</u>	
<u>COMBINING STATEMENTS - NONMAJOR FUNDS</u>	
COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS	31
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS	32 - 33
<u>INDIVIDUAL FUND SCHEDULES</u>	
GENERAL FUND - DETAILS OF REVENUE COMPARED TO BUDGET	34
GENERAL FUND - DETAILS OF EXPENDITURES COMPARED TO BUDGET	35 - 40



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October 10, 2008

Independent Auditors' Report

Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools, Iosco and Alcona Counties, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008, included in the Single Audit Reports issued under a separate cover, on our consideration of Oscoda Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oscoda Area Schools' basic financial statements. The combining nonmajor funds and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.

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Oscoda Area Schools

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OSCODA AREA SCHOOLS

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

The following section presents the administration's discussion and analysis of Oscoda Area Schools' financial performance during the year ended June 30, 2008. Please read it in conjunction with the financial statements and other supplemental information included in the Audit. This Analysis is a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34).

Generally accepted accounting principles (GAAP), according to GASB 34, requires the reporting of two types of financial statements: Fund Financial Statements and District -Wide Financial Statements.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Fund financial statements report the School District's operations in more detail than the district-wide financial statements. Fund statements are provided for the General Fund, Capital Projects Bond and Sinking Funds, Debt Service Funds, Athletic and Food Service Funds.

District-Wide Financial Statements

The district-wide financial statements are reported using the full accrual basis of accounting. With this method all of the District's assets and liabilities, and all of the current year revenues and expenditures, are reported regardless of when cash is received or paid. Capital assets and long-term obligations of the District are reported on the Statement of Net Assets.

Summary of Net Assets:

The comparative analysis for the net assets at June 30, 2008 and June 30, 2007 follows:

Net Assets Summary District-Wide Activities

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current Assets	\$ 6,197,367	\$ 6,223,581
Capital Assets & Bond Cost	16,088,533	16,625,942
Total Assets	22,285,900	22,849,523
Current Liabilities	4,330,565	4,530,530
Long-Term Liabilities	12,653,311	13,107,419
Total Liabilities	16,983,876	17,637,949

**Net Assets Summary
District -Wide Activities**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Net Assets		
Invested in Capital Assets, Net of Debt	\$ 3,919,514	\$ 4,173,209
Restricted	713,741	645,402
Unrestricted	668,769	392,963
Total Net Assets	\$ 5,302,024	\$ 5,211,574

Analysis of Financial Position:

- During the fiscal year ended June 30, 2008, the District's net assets increased by \$90,450.
- Total assets declined by \$564 thousand. Depreciation reduced capital assets by \$856 thousand.
- Total liabilities declined by \$654 thousand. Debt principal payments reduced liabilities by \$446 thousand.

Some of the significant factors affecting net assets during the year are discussed below. A reconciliation of the change in fund balance and the change in net assets can be found in the Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities in this report.

1. Change in Fund Balance

The change in fund balance for the district's governmental funds was an increase of \$125,927. This was mainly the result of an increase in the General Fund of \$57,588.

The change in Food Service, Athletics, Sinking Fund, Capital Project Fund and Debt Retirement Funds is shown on the Combining Statement of Revenue, Expenditures and Changes in Fund Balances in this report and totals \$68,339.

2. Capital Outlay Acquisitions

Actual capital outlay acquisitions for the fiscal year were \$357,054, funded primarily from the Sinking Fund and proceeds of the 2001 Building & Site Bonds. In the Statement of Activities the cost of capitalized expenses is allocated over the estimated life of the asset.

3. Depreciation

GASB 34 requires school districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets. For the fiscal year ended June 30, 2008 the increase in depreciation was \$855,544.

4. Repayment of Principal

The repayment of debt decreases the District's long-term obligations and increases net assets. The amount of debt principal repayment during the fiscal year was \$445,562.

Results of Operations:

For the fiscal years ended June 30, 2008 and June 30, 2007, the District-wide results of operations were:

	<u>2008</u>	<u>2007</u>
General Revenue:		
Property Taxes levied for General Purposes	\$ 5,777,772	\$ 5,463,431
Property Taxes levied for Debt Services	1,409,436	1,365,197
State of Michigan Aid – Unrestricted	4,964,487	5,467,066
Other Federal, State and Local	222,259	424,898
Total General Revenue	12,373,954	12,720,592
Program Revenue:		
Charges for Services	418,812	460,418
Operating Grants and Contributions	2,578,912	2,719,603
Total Program Revenues	2,997,724	3,180,021
Total Revenues	15,371,678	15,900,613
Expenses:		
Instruction	8,146,849	8,840,556
Support Services	5,315,371	5,532,579
Community Services	73,187	67,566
Food Services	836,577	794,614
Athletics	254,250	271,341
Interest on long-term debt	654,994	625,710
Total Expenses	15,281,228	16,132,366
Increase (Decrease) in Net Assets	\$ 90,450	\$ (231,753)

1. Property Taxes

The District levies 18 mills of property taxes on non-homestead property. This revenue is one component of the total per pupil foundation allowance set by the State of Michigan. As noted in the Results of Operations, the property taxes generated General Fund revenue of \$5.8 million during the fiscal year ended June 30, 2008.

The District levied .7742 mills for the Sinking Fund and 1.64 mills for debt service on the 2001 Building and Site Bond, the 2005 Refunding Bond and the 2006 Refunding Bond. The Sinking Fund revenue generated was \$451,938 and was included in a capital projects fund.

2. State of Michigan Aid, Unrestricted

The State of Michigan unrestricted aid is determined by the following variables: the foundation allowance, student enrollment and the District's non-homestead tax levy. The non-homestead taxes are deducted from the calculated total foundation amount to determine the amount paid by the State of Michigan. As noted in the Results of Operations above, Unrestricted State Aid was \$5 million. The portion of the foundation allowance payment that is restricted for special education was \$.4 million and is included under Program Revenues.

a. **State of Michigan State Aid Act- per pupil foundation allowance.** The foundation allowance was \$7,204 per pupil, an increase of \$119 over the prior year. An isolated districts payment of \$32 per pupil was also paid as unrestricted state aid.

b. **Student Enrollment** -The District's student enrollment for the September count of 2007 was 1,485 students. This was a reduction of 49 pupils from the prior year fall count. For fiscal 2007-2008 the District qualified under the Michigan School Aid Act for a three year average of blended pupil counts. The annual membership average is blended at 75% of the current fiscal year fall count and 25% of the prior year winter count. The State Aid Membership used for payment calculations for 2007-08 was 1,539. This reflected the average of the

blended counts for fiscal 2006-2008. The average membership of 1,539, multiplied by the foundation of allowance of \$7,204, resulted in a total foundation allowance of \$11.1 million.

Total Revenues

The total revenues of the District were \$15.4 million, a decrease of \$.5 million from the previous year. This decrease was primarily due to reduced restricted grant revenues combined with reduced interest income and the deferred sale of the Building Trades house.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$3 million or 19% of the total. As noted on the Statement of Activities of this report, general revenues including unrestricted state aid and property taxes provided 81% of the total.

General Fund Budget and Actual Results

The Uniform Budgeting and Accounting Act of the State of Michigan requires that the Board of Education approve the original budget for the fiscal year prior to July 1, before student enrollment counts, approved federal grant awards and other information is known. Therefore, it is expected that there will be changes between the initial budget and subsequent amendments, as more information becomes available. The budget was amended in November, April and June. Page 30 of the Audit summarizes the comparative budget and actual results.

General Fund Revenue – Actual vs. Budget

Total General Fund revenue was \$40,000 more than budgeted. A detailed comparison of local, state and federal sources for budget and actual revenues can be found in the General Fund Details of Revenue Compared to Budget statement in this report.

General Fund Expenditures vs. Budget

Total expenditures were \$200 thousand less than budgeted. A detailed comparison of budgeted and actual expenditures can be found in the General Fund Details of Expenditures Compared to Budget statement in this report.

	Revenue	Expenditures
General Fund:		
Original Budget	\$ 13,131,164	\$ 13,714,179
Final Budget	13,037,551	13,081,906
Actual	13,077,198	12,881,852
Variance	\$ 39,647	\$ 200,054
% of Budget	.3%	1.5%

Capital Asset and Debt Administration

Capital Assets

At the end of the fiscal year 2008, the District had \$25.2 million invested in land and buildings, furniture and equipment and vehicles and buses measured at historical cost. Of this amount, \$9.3 million has been depreciated. Net book value was \$15.9 million at the end of the fiscal year 2008, a decrease of nearly \$.5 million from the previous year. Major additions to capital assets were from the Sinking Fund. The capital asset information can be found in Note 3 of this report.

Long-Term Debt

At June 30, 2008, the District had \$12.5 million in principal outstanding on long-term bonds. Additional information on the District's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budgets

The General Fund Budget for 2008-09 was adopted in June 2008 based upon estimates of fall enrollment and state aid payments. Approximately 82% of total General Fund revenue for Oscoda Area Schools is from the foundation allowance. Under State law, the school district cannot assess additional property tax revenue for general operations. Accordingly, the District is heavily dependent upon the State's ability to fund the appropriations to local schools. The District will amend the budget periodically to reflect final student counts, state aid payments and other funding and expenditure changes.

The approval by voters of the District's sinking fund, beginning in 1998 and currently authorized through 2007, has provided additional funding for capital projects. The sinking fund levy is projected to add more than \$432,000 in revenue for important building and site projects in the District during 2007-08.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Oscoda Area Schools
Business Office
3550 River Road
Oscoda, MI 48750
(989) 739-2033

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 4,609,800
Receivables:	
Accounts	24,353
Due from Other Governmental Units	1,234,600
Inventory: (Note 1)	
Supplies	4,441
Building Trades Homes	324,173
Bond Issuance Costs - net (Note 1)	219,247
Noncurrent Assets:	
Capital Assets, Net (Note 3)	<u>15,869,286</u>
Total Assets	<u>22,285,900</u>
 <u>Liabilities</u>	
Accounts Payable	81,881
State Aid Anticipation Note Payable (Note 4)	2,800,000
Interest Payable	211,347
Payroll Deductions and Withholdings	424,157
Accrued Expenses	20,960
Salaries Payable	753,365
Deferred Revenue (Note 6)	38,855
Long-Term Liabilities (Note 5)	
Due within one year	477,330
Due in more than one year	<u>12,175,981</u>
Total Liabilities	<u>16,983,876</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	3,919,514
Restricted For:	
Athletics	5,355
Food Services	39,020
Debt Retirement	282,978
Capital Projects	386,388
Unrestricted	<u>668,769</u>
Total Net Assets	<u>\$ 5,302,024</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Change in</u>
			<u>Contributions</u>	<u>Net Assets</u>
				<u>Government</u>
				<u>Type</u>
				<u>Activities</u>
Instruction	\$ 8,146,849	\$ 17,156	\$ 1,412,184	\$ (6,717,509)
Support Services	5,315,371	98,485	525,802	(4,691,084)
Community Services	73,187	29,917	52,746	9,476
Food Services	836,577	219,415	586,076	(31,086)
Athletics	254,250	53,839	2,104	(198,307)
Interest on Long-Term Debt	<u>654,994</u>	<u>0</u>	<u>0</u>	<u>(654,994)</u>
Total	<u>\$ 15,281,228</u>	<u>\$ 418,812</u>	<u>\$ 2,578,912</u>	<u>(12,283,504)</u>
General Revenue:				
Property Taxes, Levied for General Purposes				5,777,772
Property Taxes, Levied for Debt Services				1,409,436
State School Aid - Unrestricted				4,964,487
Investment Earnings				113,341
Gain (Loss) on Sale of Capital Assets				(1,625)
Miscellaneous				<u>110,543</u>
Total General Revenue				<u>12,373,954</u>
Change in net assets				90,450
Net assets - beginning				<u>5,211,574</u>
Net assets - ending				<u>\$ 5,302,024</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents (Note 2)	\$ 3,884,472	\$ 725,328	\$ 4,609,800
Receivables:			
Accounts	23,456	897	24,353
Due from Other Governmental Units	1,229,221	5,379	1,234,600
Inventory: (Note 1)			
Supplies	0	4,441	4,441
Building Trades Homes	<u>324,173</u>	<u>0</u>	<u>324,173</u>
Total Assets	<u>\$ 5,461,322</u>	<u>\$ 736,045</u>	<u>\$ 6,197,367</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 62,901	\$ 18,980	\$ 81,881
State Aid Anticipation Note Payable (Note 4)	2,800,000	0	2,800,000
Interest Payable	88,729	0	88,729
Payroll Deductions and Withholdings	424,157	0	424,157
Accrued Expenditures	20,960	0	20,960
Salaries Payable	753,365	0	753,365
Deferred Revenue (Note 6)	35,531	3,324	38,855
Compensated Absences Payable	3,067	0	3,067
Early Retirement Incentive Payable	<u>4,000</u>	<u>0</u>	<u>4,000</u>
Total Liabilities	<u>4,192,710</u>	<u>22,304</u>	<u>4,215,014</u>
<u>Fund Equity</u>			
Fund Balances:			
Reserved:			
Debt Service	0	282,978	282,978
Capital Projects	0	386,388	386,388
Inventories	324,173	0	324,173
Unreserved and Undesignated, Reported In:			
General Fund	944,439	0	944,439
Special Revenue Funds	<u>0</u>	<u>44,375</u>	<u>44,375</u>
Total Fund Equity	<u>1,268,612</u>	<u>713,741</u>	<u>1,982,353</u>
Total Liabilities and Fund Equity	<u>\$ 5,461,322</u>	<u>\$ 736,045</u>	<u>\$ 6,197,367</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2008

Total governmental fund balances		\$	1,982,353
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:			
Capital Asset Cost		\$	25,218,957
Capital Asset Accumulated Depreciation			<u>(9,349,671)</u>
			15,869,286
Accrued interest on long-term liabilities			(122,618)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (net of deferred amounts on refunding)			(11,738,425)
Compensated Absences Payable			(684,572)
Early Retirement Incentive Payable			<u>(4,000)</u>
Total long-term liabilities			<u>(12,426,997)</u>
Total net assets - governmental activities		\$	<u>5,302,024</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>			
Local Sources	\$ 6,060,945	\$ 1,710,029	\$ 7,770,974
State Sources	6,171,610	69,031	6,240,641
Federal Sources	844,643	517,045	1,361,688
Total revenue	<u>13,077,198</u>	<u>2,296,105</u>	<u>15,373,303</u>
<u>Expenditures</u>			
Current:			
Instruction	7,758,507	0	7,758,507
Support Services	5,017,292	0	5,017,292
Community Services	68,759	0	68,759
Food Services	0	787,351	787,351
Athletics	0	238,867	238,867
Capital Outlay	31,554	354,904	386,458
Debt Service:			
Principal Retirement	5,562	440,000	445,562
Interest and Fees on Long-Term Debt	178	544,403	544,581
Total expenditures	<u>12,881,852</u>	<u>2,365,525</u>	<u>15,247,377</u>
Excess of revenue over (under) expenditures	<u>195,346</u>	<u>(69,420)</u>	<u>125,926</u>
<u>Other Financing Sources (Uses)</u>			
Sale of Capital Assets	1	0	1
Operating Transfers In	40,000	177,759	217,759
Operating Transfers Out	(177,759)	(40,000)	(217,759)
Total other financing sources (uses)	<u>(137,758)</u>	<u>137,759</u>	<u>1</u>
Excess of revenue and other sources over (under) expenditures and other uses	57,588	68,339	125,927
Fund balances - beginning of year	<u>1,211,024</u>	<u>645,402</u>	<u>1,856,426</u>
Fund balances - end of year	<u>\$ 1,268,612</u>	<u>\$ 713,741</u>	<u>\$ 1,982,353</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Total net change in fund balances - governmental funds	\$ 125,927
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (855,544)	
Capital outlays reported in the governmental funds	357,054	
Gain (loss) on disposal of capital assets	<u>(1,626)</u>	
		(500,116)

Repayment of the debt principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement of net
assets. This is the amount of repayments reported as expenditures in the
governmental funds.

Bonds Payable	440,000	
Capital Lease Payable	<u>5,562</u>	
		445,562

Governmental funds report the effect of issuance costs and premiums when
debt is first issued, whereas these amounts are deferred and amortized in
the statement of activities. The net effect of these differences in the
treatment of general obligation bonds and related items is as follows:

Amortization of Deferred Amounts on Refunding	(78,170)
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Expenses are reported on the accrual method in the statement of activities,
and recorded as an expenditure when financial resources are used in the
governmental funds. The effect of the treatment of these activities are as
follows:

Interest	(32,243)	
Compensated Absences	60,490	
Early Retirement Incentives	<u>69,000</u>	
		<u>97,247</u>

Change in net assets of governmental activities	\$ <u>90,450</u>
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The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
June 30, 2008

	<u>Student Activity</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 2)	\$ 61,760
Investments (Note 2)	<u>6,516</u>
Total Assets	\$ <u>68,276</u>
<u>LIABILITIES</u>	
Due to Student Groups	\$ <u>68,276</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Oscoda Area Schools (School District) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The School District is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Oscoda Area Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Oscoda Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the School District's major governmental fund:

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2008, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

G. Inventory – Supplies

Inventory on government-wide financial statements is stated at cost and expensed when used.

Inventory in governmental funds consists of expendable supplies held for consumption. Inventory is stated at cost and recorded as an expenditure in the governmental fund types when purchased.

H. Inventory – Building Trades Home and Lots

Inventory represents the cost of property purchased for future building sites and partial construction costs.

I. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

O. Governmental Fund Balance Reserves

The School District reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure.

P. Property Taxes

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the School District through February. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

Q. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School District. For the year ended June 30, 2008, the foundation allowance was based on the average of the fiscal years 2006, 2007 and 2008 blended pupil membership counts.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2007 - August, 2008. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

R. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2008.

U. Economic Dependency

The School District received approximately 41% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

V. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

W. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Oscoda Area Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 4,609,800	\$ 61,760	\$ 4,671,560
Investments	<u>0</u>	<u>6,516</u>	<u>6,516</u>
Total	<u>\$ 4,609,800</u>	<u>\$ 68,276</u>	<u>\$ 4,678,076</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 148,874
Investments in Financial Institution Pooled Funds	<u>4,529,202</u>
Total	<u>\$ 4,678,076</u>

As of June 30, 2008, the School District had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u>\$ 4,529,202</u>	Daily

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2008, the School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's, and the investment in the National City Bank investment pool was unrated.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserves.

Investments in other types of authorized securities may be made with the provision that no more than fifty percent of the total current investment portfolio consists of one type of security.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$105,150 of the School District's bank balance of \$217,045 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign Currency Risk

The School District is not authorized to invest in investments which have this type of risk.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 01, 2007	Additions	Deletions	Balance June 30, 2008
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 94,533	\$ 0	\$ 0	\$ 94,533
Capital Assets Being Depreciated				
Buildings and Improvements	17,065,987	179,377	(1,024)	17,244,340
Site Improvements	3,781,871	47,863	(26,144)	3,803,590
Furniture, Fixtures and Equipment	2,468,712	129,814	0	2,598,526
Vehicles and Buses	1,615,102	0	(137,134)	1,477,968
Subtotal	<u>24,931,672</u>	<u>357,054</u>	<u>(164,302)</u>	<u>25,124,424</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(5,301,317)	(349,824)	1,024	(5,650,117)
Site Improvements	(743,764)	(179,200)	26,144	(896,820)
Furniture, Fixtures and Equipment	(1,250,340)	(236,262)	0	(1,486,602)
Vehicles and Buses	(1,361,382)	(90,258)	135,508	(1,316,132)
Subtotal	<u>(8,656,803)</u>	<u>(855,544)</u>	<u>162,676</u>	<u>(9,349,671)</u>
Capital Assets Being Depreciated	<u>16,274,869</u>	<u>(498,490)</u>	<u>(1,626)</u>	<u>15,774,753</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 16,369,402</u>	<u>\$ (498,490)</u>	<u>\$ (1,626)</u>	<u>\$ 15,869,286</u>

Depreciation expense was charged to activities of the School District as follows:

<u>Governmental Activities</u>	
Instruction	\$ 476,540
Support Services	310,916
Community Services	4,281
Food Services	48,935
Athletics	14,872
	<u>\$ 855,544</u>

NOTE 4 - SHORT-TERM DEBT

The School District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 4 - SHORT-TERM DEBT (CONTINUED)

The following is a summary of the short-term financing:

	<u>July 01, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>
State Aid Anticipation Note Payable	<u>\$ 2,900,000</u>	<u>\$ 2,800,000</u>	<u>\$ 2,900,000</u>	<u>\$ 2,800,000</u>

The State Aid Anticipation Note was acquired to help cover school operations for fiscal year 2008. The note is dated August 20, 2007, bears interest at 3.68% and will be due for payment on August 20, 2008.

NOTE 5 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
School Improvement Bonds:				
The bonds dated November 24, 1998 which bear interest at 4.76% to 8% are due serially each May 15 through 2013	1998	\$ 173,287	\$ 47,614	\$ 220,901
2001 School Building and Site Bonds:				
The bonds dated November 15, 2001 which bear interest at 2.4% to 5.625% are due serially each May 1 through 2026	2001	1,330,000	106,060	1,436,060
2005 Refunding Bonds:				
The bonds dated April 26, 2005 which bear interest at 3% to 4.4% are due serially each May 1 through 2023	2005	6,565,000	3,098,420	9,663,420
2006 Refunding Bonds:				
The bonds dated March 30, 2006 which bear interest at 4% to 5% are due serially each May 1 through 2026	2006	<u>4,435,000</u>	<u>2,381,106</u>	<u>6,816,106</u>
Total Bonds Payable		<u>\$ 12,503,287</u>	<u>\$ 5,633,200</u>	<u>\$ 18,136,487</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

The annual principal and interest requirements for long-term debt for the years after June 30, 2008 are as follows:

	Government Activities		
	Principal	Interest	Total
2009	\$ 476,333	\$ 530,457	\$ 1,006,790
2010	497,110	512,428	1,009,538
2011	601,396	527,490	1,128,886
2012	538,777	472,470	1,011,247
2013	564,671	446,154	1,010,825
2014 - 2018	3,130,000	1,823,913	4,953,913
2019 - 2023	3,920,000	1,089,572	5,009,572
2024 - 2026	<u>2,775,000</u>	<u>230,716</u>	<u>3,005,716</u>
Total	<u>\$ 12,503,287</u>	<u>\$ 5,633,200</u>	<u>\$ 18,136,487</u>

The annual State of Michigan appropriation, through the State Aid payments, is the only revenue source for making the annual debt service payment on the school improvement bonds. If the legislature fails to appropriate the funds, the School District is under no obligation for payment.

B. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate a limited amount of sick pay days based on contracts and an unlimited amount of vacation pay days. The amount of accumulated sick and vacation pay liability, recorded in the government-wide statements, for the School District was \$687,639 at June 30, 2008, of which \$28,591 was the estimated current portion.

C. Early Retirement Incentive Payable

The School District offered a voluntary severance incentive plan to employees in 2008. There are currently 2 employees who participated in the plan. The balance as of June 30, 2008 was \$8,000, all of which will be paid within one year.

D. Defeasance of Debt

On April 26, 2005, the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2015 and ending in 2023. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2008, \$6,190,000 of bonds outstanding are considered defeased.

On March 30, 2006 the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2012 and ending in 2026. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2008, \$4,295,000 of bonds outstanding are considered defeased.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

E. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Increase	Decrease	Balance June 30, 2008	Amount Due in One Year
<u>Governmental Activities</u>					
Bonds	\$12,943,287	\$ 0	\$ (440,000)	\$ 12,503,287	\$ 476,333
Plus Deferred Premiums on Bonds	119,252	0	(6,647)	112,605	6,647
Less Deferred Amounts on Refunding	<u>(705,743)</u>	<u>0</u>	<u>47,523</u>	<u>(658,220)</u>	<u>(42,241)</u>
Total Bonds Payable, Net	12,356,796	0	(399,124)	11,957,672	440,739
Capital Leases	5,562	0	(5,562)	0	0
Compensated Absences	745,062	0	(57,423) *	687,639	28,591
Early Retirement Incentive	<u>73,000</u>	<u>0</u>	<u>(65,000) *</u>	<u>8,000</u>	<u>8,000</u>
Total Long-Term Liabilities	<u>\$13,180,420</u>	<u>\$ 0</u>	<u>\$ (527,109)</u>	<u>\$ 12,653,311</u>	<u>\$ 477,330</u>

*Represents net of additions and retirements for the year.

The payment dates of compensated absences payable are undeterminable.

The interest expenditures on long-term obligations for the year were \$654,994.

NOTE 6 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
General Fund:	
Education Technology	\$ 1,519
Literacy Achievement Program	2,990
Michigan School Readiness	3,400
Nonplaintiff Durant Settlement	27,622
Food Service Fund:	
Meal Cards	<u>3,324</u>
Total	<u>\$ 38,855</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 7 - OPERATING TRANSFERS

During the year ended June 30, 2008, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 40,000	\$ 177,759
Non-major Governmental Funds	<u>177,759</u>	<u>40,000</u>
	<u>\$ 217,759</u>	<u>\$ 217,759</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 8 - RETIREMENT PLANS

Defined Benefit Plan

The Oscoda Area Schools contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2007, employer contributions were 17.74% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. After September 30, 2007, the contribution rate decreased to 16.72% of covered compensation. The contribution requirements of plan members and Oscoda Area Schools are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2008, 2007 and 2006 were \$1,248,560, \$1,365,177 and \$1,237,568, respectively, equal to the required contributions for each year.

The MPERS also provides for death and disability benefits which are established by state statute. Under the MPERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 8 - RETIREMENT PLANS (CONTINUED)

Deferred Compensation Plans

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Oscoda Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPERS. Employee contributions to the TDP program totaled \$48,447 for the year ended June 30, 2008.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$206,487 for the year ended June 30, 2008. The assets of the plan are administered and held by various approved third party financial institutions.

NOTE 9 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$20,960 as of June 30, 2008.

NOTE 10 - BONDED CONSTRUCTION FUND AND SINKING FUND

The 2001 Capital Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2001 Capital Project Fund. The project for which the 2001 Capital Project Fund were issued was considered complete on May 17, 2006 and the cumulative expenditures recognized for the construction period were \$15,699,950.

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the revised bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 12 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 13 - CONTINGENCIES AND COMMITMENTS

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2008, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

NOTE 14 - SUBSEQUENT EVENT

Subsequent to June 30, 2008, the School District has paid the balance of \$2,800,000 and accrued interest on the short-term state aid anticipation note borrowed in August 2007 and has subsequently borrowed \$3,400,000 in short-term aid anticipation notes, bearing an interest rate of 1.7% through the Michigan Municipal Bond Authority. Proceeds from the borrowing were distributed to the School District in August 2008.

NOTE 15 - IDLE IMPAIRED CAPITAL ASSETS

County Line Elementary School building has been closed down since June 2004, and is currently listed for sale. The carrying value of the land and building at June 30, 2008 is \$107,379. No impairment loss is recorded, as the carrying value is lower than the estimated fair value of \$299,000.

REQUIRED SUPPLEMENTARY INFORMATION

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 6,379,732	\$ 6,030,341	\$ 6,060,945	\$ 30,604
State Sources	5,950,432	6,141,021	6,171,610	30,589
Federal Sources	801,000	866,189	844,643	(21,546)
Total revenue	<u>13,131,164</u>	<u>13,037,551</u>	<u>13,077,198</u>	<u>39,647</u>
<u>Expenditures</u>				
Current:				
Instruction	8,104,137	7,865,708	7,758,507	107,201
Support Services	5,541,722	5,096,199	5,017,292	78,907
Community Services	62,220	82,013	68,759	13,254
Capital Outlay	300	32,186	31,554	632
Debt Service:				
Principal Retirement	5,600	5,600	5,562	38
Interest and Fees on Long-Term Debt	200	200	178	22
Total expenditures	<u>13,714,179</u>	<u>13,081,906</u>	<u>12,881,852</u>	<u>200,054</u>
Excess of revenue over (under) expenditures	<u>(583,015)</u>	<u>(44,355)</u>	<u>195,346</u>	<u>239,701</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	213,000	0	1	1
Operating Transfers In	40,000	40,000	40,000	0
Operating Transfers Out	(176,776)	(178,016)	(177,759)	257
Total other financing sources (uses)	<u>76,224</u>	<u>(138,016)</u>	<u>(137,758)</u>	<u>258</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(506,791)</u>	<u>(182,371)</u>	<u>57,588</u>	<u>239,959</u>
Fund balances - beginning of year	<u>1,211,024</u>	<u>1,211,024</u>	<u>1,211,024</u>	<u>0</u>
Fund balances - end of year	<u>\$ 704,233</u>	<u>\$ 1,028,653</u>	<u>\$ 1,268,612</u>	<u>\$ 239,959</u>

OTHER INFORMATION

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>			<u>Capital Projects Funds</u>		<u>Total Other Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Athletic Fund</u>	<u>2001 School Bond</u>	<u>2005 Refunding Bond</u>	<u>2006 Refunding Bond</u>	<u>Sinking Fund</u>	<u>2001 Issue</u>	
<u>ASSETS</u>								
Cash and Cash Equivalents	\$ 50,607	\$ 5,355	\$ 27,878	\$ 151,118	\$ 103,982	\$ 386,388	\$ 0	\$ 725,328
Receivables:								
Accounts	897	0	0	0	0	0	0	897
Due from Other Governmental Units	5,379	0	0	0	0	0	0	5,379
Inventory:								
Supplies	<u>4,441</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,441</u>
Total Assets	<u>\$ 61,324</u>	<u>\$ 5,355</u>	<u>\$ 27,878</u>	<u>\$ 151,118</u>	<u>\$ 103,982</u>	<u>\$ 386,388</u>	<u>\$ 0</u>	<u>\$ 736,045</u>
<u>LIABILITIES AND FUND EQUITY</u>								
<u>Liabilities</u>								
Accounts Payable	\$ 18,980	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 18,980
Deferred Revenue	<u>3,324</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,324</u>
Total Liabilities	<u>22,304</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,304</u>
<u>Fund Equity</u>								
Fund Balances:								
Reserved:								
Debt Service	0	0	27,878	151,118	103,982	0	0	282,978
Capital Projects	0	0	0	0	0	386,388	0	386,388
Unreserved and Undesignated, Reported In:								
Special Revenue Funds	<u>39,020</u>	<u>5,355</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>44,375</u>
Total Fund Equity	<u>39,020</u>	<u>5,355</u>	<u>27,878</u>	<u>151,118</u>	<u>103,982</u>	<u>386,388</u>	<u>0</u>	<u>713,741</u>
Total Liabilities and Fund Equity	<u>\$ 61,324</u>	<u>\$ 5,355</u>	<u>\$ 27,878</u>	<u>\$ 151,118</u>	<u>\$ 103,982</u>	<u>\$ 386,388</u>	<u>\$ 0</u>	<u>\$ 736,045</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>			<u>Capital Projects Funds</u>		<u>Total Other Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Athletic Fund</u>	<u>2001 School Bond</u>	<u>2005 Refunding Bond</u>	<u>2006 Refunding Bond</u>	<u>Sinking Fund</u>	<u>2001 Issue</u>	
<u>Revenue</u>								
Local Sources	\$ 223,223	\$ 59,029	\$ 464,975	\$ 308,174	\$ 195,694	\$ 456,255	\$ 2,679	\$ 1,710,029
State Sources	69,031	0	0	0	0	0	0	69,031
Federal Sources	517,045	0	0	0	0	0	0	517,045
Total revenue	<u>809,299</u>	<u>59,029</u>	<u>464,975</u>	<u>308,174</u>	<u>195,694</u>	<u>456,255</u>	<u>2,679</u>	<u>2,296,105</u>
<u>Expenditures</u>								
Current:								
Food Services	787,351	0	0	0	0	0	0	787,351
Athletics	0	238,867	0	0	0	0	0	238,867
Capital Outlay	187	1,224	0	0	0	221,496	131,997	354,904
Debt Service:								
Principal Retirement	0	0	410,000	30,000	0	0	0	440,000
Interest and Fees on Long-Term Debt	<u>0</u>	<u>0</u>	<u>68,526</u>	<u>280,771</u>	<u>195,106</u>	<u>0</u>	<u>0</u>	<u>544,403</u>
Total expenditures	<u>787,538</u>	<u>240,091</u>	<u>478,526</u>	<u>310,771</u>	<u>195,106</u>	<u>221,496</u>	<u>131,997</u>	<u>2,365,525</u>
Excess of revenue over (under) expenditures	<u>21,761</u>	<u>(181,062)</u>	<u>(13,551)</u>	<u>(2,597)</u>	<u>588</u>	<u>234,759</u>	<u>(129,318)</u>	<u>(69,420)</u>
<u>Other Financing Sources (Uses)</u>								
Operating Transfers In	719	177,040	0	0	0	0	0	177,759
Operating Transfers Out	<u>(40,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(40,000)</u>
Total other financing sources (uses)	<u>(39,281)</u>	<u>177,040</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>137,759</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>			<u>Capital Projects Funds</u>		<u>Total Other Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Athletic Fund</u>	<u>2001 School Bond</u>	<u>2005 Refunding Bond</u>	<u>2006 Refunding Bond</u>	<u>Sinking Fund</u>	<u>2001 Issue</u>	
Excess of revenue and other sources over (under) expenditures and other uses	\$ (17,520)	\$ (4,022)	\$ (13,551)	\$ (2,597)	\$ 588	\$ 234,759	\$ (129,318)	\$ 68,339
Fund balances - beginning of year	<u>56,540</u>	<u>9,377</u>	<u>41,429</u>	<u>153,715</u>	<u>103,394</u>	<u>151,629</u>	<u>129,318</u>	<u>645,402</u>
Fund balances - end of year	<u>\$ 39,020</u>	<u>\$ 5,355</u>	<u>\$ 27,878</u>	<u>\$ 151,118</u>	<u>\$ 103,982</u>	<u>\$ 386,388</u>	<u>\$ 0</u>	<u>\$ 713,741</u>

INDIVIDUAL FUND SCHEDULES

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 5,753,366	\$ 5,777,772	\$ 5,463,431
Tuition	12,303	12,196	28,526
Transportation Fees	4,600	5,694	8,242
Interest on Investments	91,000	91,313	133,418
Rents	2,400	2,698	1,110
Building Trades Home	0	0	156,000
Medicaid Fee for Service	36,236	36,236	60,922
Miscellaneous Local Sources	<u>130,436</u>	<u>135,036</u>	<u>129,968</u>
	<u>6,030,341</u>	<u>6,060,945</u>	<u>5,981,617</u>
<u>State Sources</u>			
State Aid Foundation Allowance	4,726,021	4,728,586	5,248,753
Isolated Districts	20,000	49,217	0
NonPlaintiff Durant Settlement	43,829	43,829	16,592
Renaissance Zone	220,619	218,131	218,313
At Risk	421,541	421,984	549,291
Math/Science	17,770	18,126	0
Gifted and Talented	541	541	0
Literacy Achievement Program	19,532	19,532	23,359
Preschool Program/Early Childhood Education	203,900	203,900	168,300
Special Education Grant	446,439	446,439	455,868
Career Prep	20,829	21,325	26,815
Transportation	<u>0</u>	<u>0</u>	<u>86</u>
	<u>6,141,021</u>	<u>6,171,610</u>	<u>6,707,377</u>
<u>Federal Sources</u>			
ECIA Title I	597,893	585,224	666,283
ECIA Title II- Improving Teacher Quality	150,098	153,023	153,924
Title II D - Education Technology	5,400	3,881	6,560
Rural and Low-Income Schools	14,473	14,473	53,244
Title V	3,411	3,411	13,024
Medicaid Outreach	457	457	158
Schools and Roads Grant Funds	<u>94,457</u>	<u>84,174</u>	<u>84,100</u>
	<u>866,189</u>	<u>844,643</u>	<u>977,293</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	0	1	0
Operating Transfers In	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>
	<u>40,000</u>	<u>40,001</u>	<u>40,000</u>
Total Revenue and Other Financing Sources	<u>\$ 13,077,551</u>	<u>\$ 13,117,199</u>	<u>\$ 13,706,287</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,576,412	\$ 1,575,522	\$ 1,542,258
Employee Benefits	793,345	788,990	776,315
Purchased Services	37,513	36,630	15,346
Supplies, Materials and Other	<u>54,136</u>	<u>53,543</u>	<u>48,213</u>
	<u>2,461,406</u>	<u>2,454,685</u>	<u>2,382,132</u>
Junior High School			
Salaries	819,140	818,385	850,669
Employee Benefits	418,586	416,674	421,722
Purchased Services	28,957	27,299	12,223
Supplies, Materials and Other	<u>13,431</u>	<u>13,207</u>	<u>14,081</u>
	<u>1,280,114</u>	<u>1,275,565</u>	<u>1,298,695</u>
High School			
Salaries	1,089,312	1,087,808	1,107,647
Employee Benefits	545,629	544,276	529,040
Purchased Services	84,565	84,077	71,739
Supplies, Materials and Other	<u>77,165</u>	<u>76,865</u>	<u>41,117</u>
	<u>1,796,671</u>	<u>1,793,026</u>	<u>1,749,543</u>
Preschool			
Salaries	129,026	127,430	150,265
Employee Benefits	52,699	52,123	69,295
Purchased Services	2,876	2,765	699
Supplies, Materials and Other	<u>4,219</u>	<u>3,696</u>	<u>1,274</u>
	<u>188,820</u>	<u>186,014</u>	<u>221,533</u>
Summer School			
Salaries	14,719	14,718	12,991
Employee Benefits	3,736	3,733	3,117
Supplies, Materials and Other	<u>2,566</u>	<u>1,548</u>	<u>542</u>
	<u>21,021</u>	<u>19,999</u>	<u>16,650</u>
Total Basic Programs	<u>5,748,032</u>	<u>5,729,289</u>	<u>5,668,553</u>
Added Needs:			
Special Education			
Salaries	739,536	723,334	770,406
Employee Benefits	363,647	355,818	364,731
Purchased Services	109,537	89,220	64,327
Supplies, Materials and Other	<u>2,655</u>	<u>2,581</u>	<u>4,049</u>
	<u>1,215,375</u>	<u>1,170,953</u>	<u>1,203,513</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Instruction</u> (Continued)			
Added Needs: (Continued)			
Compensatory Education			
Salaries	\$ 387,341	\$ 359,487	\$ 563,610
Employee Benefits	194,354	180,907	244,154
Purchased Services	16,006	15,536	8,508
Supplies, Materials and Other	13,457	12,243	8,112
	<u>611,158</u>	<u>568,173</u>	<u>824,384</u>
 Career and Technical/Vocational Education			
Salaries	134,621	134,618	201,074
Employee Benefits	54,050	53,801	88,874
Purchased Services	97,387	96,897	165,481
Supplies, Materials and Other	5,085	4,776	137,097
	<u>291,143</u>	<u>290,092</u>	<u>592,526</u>
 Total Added Needs	<u>2,117,676</u>	<u>2,029,218</u>	<u>2,620,423</u>
 Total Instruction	<u>7,865,708</u>	<u>7,758,507</u>	<u>8,288,976</u>
 <u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	252,653	280,567	236,429
Employee Benefits	132,374	145,922	116,052
Purchased Services	1,400	698	1,212
	<u>386,427</u>	<u>427,187</u>	<u>353,693</u>
 Health Services			
Salaries	32,146	32,101	32,101
Employee Benefits	27,321	27,202	24,402
Purchased Services	13,252	13,828	29,217
Supplies, Materials and Other	795	805	837
	<u>73,514</u>	<u>73,936</u>	<u>86,557</u>
 Psychological Services			
Purchased Services	<u>12,600</u>	<u>12,158</u>	<u>28,325</u>
 Speech			
Salaries	102,480	102,485	97,173
Employee Benefits	52,190	52,299	50,344
Purchased Services	1,900	1,885	629
Supplies, Materials and Other	300	136	285
	<u>156,870</u>	<u>156,805</u>	<u>148,431</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services</u> (Continued)			
Pupil Services: (Continued)			
Social Work			
Salaries	\$ 23,270	\$ 23,274	\$ 23,274
Employee Benefits	11,060	11,093	10,999
Supplies, Materials and Other	500	445	55
	<u>34,830</u>	<u>34,812</u>	<u>34,328</u>
Other Pupil Services			
Salaries	818	818	0
Employee Benefits	208	208	0
	<u>1,026</u>	<u>1,026</u>	<u>0</u>
Total Pupil Services	<u>665,267</u>	<u>705,924</u>	<u>651,334</u>
Instructional Staff:			
Instructional Improvement			
Salaries	29,772	24,623	81,539
Employee Benefits	9,699	6,192	19,219
Purchased Services	41,230	37,339	55,661
Supplies, Materials and Other	8,502	6,794	25,654
	<u>89,203</u>	<u>74,948</u>	<u>182,073</u>
Library Services			
Salaries	9,870	9,237	99,556
Employee Benefits	5,800	5,571	49,320
Purchased Services	2,952	1,961	6,063
Supplies, Materials and Other	0	0	1,060
	<u>18,622</u>	<u>16,769</u>	<u>155,999</u>
Total Instructional Staff	<u>107,825</u>	<u>91,717</u>	<u>338,072</u>
General Administration:			
Board of Education			
Salaries	2,500	2,310	3,120
Employee Benefits	400	177	239
Purchased Services	59,720	58,561	55,950
Supplies, Materials and Other	4,600	3,441	5,572
	<u>67,220</u>	<u>64,489</u>	<u>64,881</u>
Executive Administration			
Salaries	177,328	175,516	200,508
Employee Benefits	107,379	105,713	100,211
Purchased Services	63,191	50,537	47,628
Supplies, Materials and Other	11,611	11,900	7,839
	<u>359,509</u>	<u>343,666</u>	<u>356,186</u>
Total General Administration	<u>426,729</u>	<u>408,155</u>	<u>421,067</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services</u> (Continued)			
School Administration:			
Office of the Principal			
Salaries	\$ 572,930	\$ 576,587	\$ 593,753
Employee Benefits	322,873	325,814	323,171
Purchased Services	21,058	19,245	14,292
Supplies, Materials and Other	<u>8,768</u>	<u>8,087</u>	<u>6,914</u>
	<u>925,629</u>	<u>929,733</u>	<u>938,130</u>
Director of Instruction			
Salaries	94,733	94,729	84,352
Employee Benefits	57,992	52,180	48,397
Purchased Services	47,638	46,392	44,513
Supplies, Materials and Other	<u>3,705</u>	<u>3,208</u>	<u>1,116</u>
	<u>204,068</u>	<u>196,509</u>	<u>178,378</u>
Other Administration			
Purchased Services	861	772	1,011
Supplies, Materials and Other	<u>5,801</u>	<u>5,346</u>	<u>1,702</u>
	<u>6,662</u>	<u>6,118</u>	<u>2,713</u>
Total School Administration	<u>1,136,359</u>	<u>1,132,360</u>	<u>1,119,221</u>
Business:			
Business Services			
Board of Review Changes	0	0	1,010
Purchased Services	114,538	114,538	116,502
Supplies, Materials and Other	<u>13,015</u>	<u>12,947</u>	<u>21,393</u>
	<u>127,553</u>	<u>127,485</u>	<u>138,905</u>
Fiscal Services			
Salaries	92,812	92,811	89,646
Employee Benefits	60,527	60,506	53,649
Purchased Services	1,200	418	1,143
Supplies, Materials and Other	<u>2,248</u>	<u>1,903</u>	<u>2,247</u>
	<u>156,787</u>	<u>155,638</u>	<u>146,685</u>
Total Business	<u>284,340</u>	<u>283,123</u>	<u>285,590</u>
Operations and Maintenance:			
Salaries	376,670	375,470	394,814
Employee Benefits	280,051	280,104	267,621
Purchased Services	665,212	643,108	617,171
Supplies, Materials and Other	<u>77,927</u>	<u>71,738</u>	<u>77,403</u>
	<u>1,399,860</u>	<u>1,370,420</u>	<u>1,357,009</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services</u> (Continued)			
Transportation:			
Salaries	\$ 395,080	\$ 385,222	\$ 427,511
Employee Benefits	211,565	205,880	207,796
Purchased Services	52,178	40,955	43,563
Supplies, Materials and Other	<u>250,944</u>	<u>235,563</u>	<u>231,503</u>
	<u>909,767</u>	<u>867,620</u>	<u>910,373</u>
Central Services:			
Staff and Personnel Services			
Salaries	1,700	880	2,371
Employee Benefits	500	217	639
Purchased Services	28,388	24,695	18,031
Supplies, Materials and Other	<u>4,778</u>	<u>3,736</u>	<u>5,579</u>
	<u>35,366</u>	<u>29,528</u>	<u>26,620</u>
Technology:			
Salaries	58,159	57,988	50,376
Employee Benefits	29,735	29,693	27,501
Purchased Services	34,287	32,349	40,228
Supplies, Materials and Other	<u>8,505</u>	<u>8,415</u>	<u>1,544</u>
	<u>130,686</u>	<u>128,445</u>	<u>119,649</u>
Total Support Services	<u>5,096,199</u>	<u>5,017,292</u>	<u>5,228,935</u>
<u>Community Services</u>			
Community Recreation			
Salaries	10,000	6,499	6,898
Employee Benefits	2,470	1,044	1,187
Other Purchased Services	4,458	5,410	7,323
Other Supplies	<u>23,276</u>	<u>21,399</u>	<u>23,325</u>
	<u>40,204</u>	<u>34,352</u>	<u>38,733</u>
Community Activities			
Salaries	17,715	15,843	3,917
Employee Benefits	4,355	3,864	993
Purchased Services	7,294	5,558	2,745
Supplies, Materials and Other	<u>7,350</u>	<u>4,342</u>	<u>9,618</u>
	<u>36,714</u>	<u>29,607</u>	<u>17,273</u>
Other Community Services			
Salaries	0	0	849
Employee Benefits	0	0	215
Purchased Services	4,500	4,458	3,435
Supplies, Materials and Other	<u>595</u>	<u>342</u>	<u>8</u>
	<u>5,095</u>	<u>4,800</u>	<u>4,507</u>
Total Community Services	<u>82,013</u>	<u>68,759</u>	<u>60,513</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Capital Outlay</u>			
Instruction	\$ 28,360	\$ 27,728	\$ 3,534
Support Services	1,256	1,256	1,473
Community Services	<u>2,570</u>	<u>2,570</u>	<u>3,303</u>
Total Capital Outlay	<u>32,186</u>	<u>31,554</u>	<u>8,310</u>
<u>Debt Service</u>			
Principal Retirement	5,600	5,562	8,847
Interest and Fees on Long-Term Debt	<u>200</u>	<u>178</u>	<u>993</u>
Total Debt Service	<u>5,800</u>	<u>5,740</u>	<u>9,840</u>
<u>Operating Transfers Out</u>			
Athletic Fund	177,297	177,040	192,639
Food Service Fund	<u>719</u>	<u>719</u>	<u>746</u>
Total Transfers Out	<u>178,016</u>	<u>177,759</u>	<u>193,385</u>
Total Expenditures and Transfers	<u>\$ 13,259,922</u>	<u>\$ 13,059,611</u>	<u>\$ 13,789,959</u>



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OSCODA AREA SCHOOLS
IOSCO AND ALCONA COUNTIES, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2008

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	<u>PAGE</u>
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1 - 2
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	3 - 4
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	6
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	7 - 10



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October 10, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Oscoda Area Schools
Iosco and Alcona County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools as of and for the year ended June 30, 2008, which collectively comprise the Oscoda Area Schools' basic financial statements and have issued our report thereon dated October 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oscoda Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oscoda Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oscoda Area Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Oscoda Area Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Oscoda Area Schools' financial statements that is more than inconsequential will not be prevented or detected by Oscoda Area Schools' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Oscoda Area Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oscoda Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Education
Oscoda Area Schools
October 10, 2008
Page Two

We noted certain matters that we have reported to management of Oscoda Area Schools in a separate letter dated October 10, 2008.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunh & Co., P.C.



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October 10, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Oscoda Area Schools
Iosco and Alcona County, Michigan

Compliance

We have audited the compliance of the Oscoda Area Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Oscoda Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Oscoda Area Schools' management. Our responsibility is to express an opinion on the Oscoda Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Oscoda Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Oscoda Area Schools' compliance with those requirements.

In our opinion, Oscoda Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Oscoda Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Oscoda Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Oscoda Area Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Oscoda Area Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated October 10, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Oscoda Area Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grubb & Co., P.C.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2008

Findings - Financial Statements Audit

07-1

Internal Controls Financial Statement Preparation

Oscoda Area Schools have individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

Current Status:

Based on the current year evaluation of management, it was determined that the preparation of the financial statements is no longer a significant deficiency. We believe that management has adequate procedures in place that would identify any material misstatements to the financial statements.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ending June 30, 2007.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of Oscoda Area Schools.
- (2) No significant deficiencies relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of Oscoda Area Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for Oscoda Area Schools expresses an unqualified opinion.
- (6) The auditors' report disclosed no audit findings relative to the major federal award programs for Oscoda Area Schools.
- (7) The program tested as a major program was: Title I CFDA #84.010.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) Oscoda Area Schools was determined to be a low-risk auditee.

Findings – Financial Statements Audit

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ending June 30, 2008.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs relative to the major federal award programs for Oscoda Area Schools for the year ending June 30, 2008.

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

<u>Federal Grantor or Pass Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2007</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2008</u>
<u>U.S. Department of Agriculture</u>							
Child Nutrition Cluster:							
Passed through Michigan Department of Education:							
National School Breakfast Program:	10.553						
071970		\$ 144,125	\$ 127,657	\$ 0	\$ 16,468	\$ 16,468	\$ 0
081970		<u>139,739</u>	<u>0</u>	<u>0</u>	<u>139,739</u>	<u>139,739</u>	<u>0</u>
		<u>283,864</u>	<u>127,657</u>	<u>0</u>	<u>156,207</u>	<u>156,207</u>	<u>0</u>
National School Lunch Program:	10.555						
Sec. 4 - All Lunches:							
071950		42,338	37,532	0	4,806	4,806	0
081950		39,125	0	0	39,125	39,125	0
Sec. 11 - Free and Reduced:							
071960		257,171	226,487	0	30,684	30,684	0
081960		<u>244,503</u>	<u>0</u>	<u>0</u>	<u>244,503</u>	<u>244,503</u>	<u>0</u>
		<u>583,137</u>	<u>264,019</u>	<u>0</u>	<u>319,118</u>	<u>319,118</u>	<u>0</u>
Total Child Nutrition Cluster		<u>867,001</u>	<u>391,676</u>	<u>0</u>	<u>475,325</u>	<u>475,325</u>	<u>0</u>
Passed through Michigan Department of Education:							
Food Distribution for National Lunch or Breakfast Programs:	10.550						
Entitlement Commodities		38,988	0	0	38,988	38,988	0
Bonus Commodities		<u>2,732</u>	<u>0</u>	<u>0</u>	<u>2,732</u>	<u>2,732</u>	<u>0</u>
		<u>41,720</u>	<u>0</u>	<u>0</u>	<u>41,720</u>	<u>41,720</u>	<u>0</u>
Passed through Alcona County:	10.665						
Schools and Roads Grant Funds		29,386	0	0	29,386	29,386	0
Passed through Iosco County:							
Schools and Roads Grant Funds		<u>54,788</u>	<u>0</u>	<u>0</u>	<u>54,788</u>	<u>54,788</u>	<u>0</u>
		<u>84,174</u>	<u>0</u>	<u>0</u>	<u>84,174</u>	<u>84,174</u>	<u>0</u>
Total U.S. Department of Agriculture		<u>992,895</u>	<u>391,676</u>	<u>0</u>	<u>601,219</u>	<u>601,219</u>	<u>0</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor or Pass Through Grantor <u>Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2007</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2008</u>
<u>U.S. Department of Education</u>							
Passed through Michigan Department of Education:							
Title I - Grants to Local Educational Agencies:	84.010						
Part A Imp Basic Pro 061530 0607		\$ 89,074	\$ 89,074	\$ 519	\$ 0	\$ 519	\$ 0
Part A Imp Basic Pro 071530 0607		558,953	467,059	1,983	15,612	17,595	0
Part A Imp Basic Pro 081530 0708		<u>648,450</u>	<u>0</u>	<u>0</u>	<u>569,612</u>	<u>493,348</u>	<u>76,264</u>
		<u>1,296,477</u>	<u>556,133</u>	<u>2,502</u>	<u>585,224</u>	<u>511,462</u>	<u>76,264</u>
Passed through Michigan Department of Education:							
Title V:	84.298						
080250 0708		<u>6,553</u>	<u>0</u>	<u>0</u>	<u>3,411</u>	<u>3,411</u>	<u>0</u>
Passed through Michigan Department of Education:							
Title II:	84.318						
Part D Ed Tech 074290 0607		5,719	3,719	0	481	2,000	(1,519)
Part D Ed Tech 084290 0708		<u>5,378</u>	<u>0</u>	<u>0</u>	<u>3,400</u>	<u>3,400</u>	<u>0</u>
		<u>11,097</u>	<u>3,719</u>	<u>0</u>	<u>3,881</u>	<u>5,400</u>	<u>(1,519)</u>
Passed through Michigan Department of Education:							
Title VI, Part B, Subpart 2:	84.358B						
Rural and Low-Income Schools 070660 0607		53,245	53,244	4,793	0	4,793	0
Rural and Low-Income Schools 080660 0708		<u>45,552</u>	<u>0</u>	<u>0</u>	<u>14,473</u>	<u>14,473</u>	<u>0</u>
		<u>98,797</u>	<u>53,244</u>	<u>4,793</u>	<u>14,473</u>	<u>19,266</u>	<u>0</u>
Passed through Michigan Department of Education:							
Title IIA:	84.367						
Improving Teacher Quality 060520 0506		173,534	137,052	0	6,738	270	6,468
Improving Teacher Quality 070520 0607		<u>210,164</u>	<u>0</u>	<u>0</u>	<u>146,285</u>	<u>142,285</u>	<u>4,000</u>
		<u>383,698</u>	<u>137,052</u>	<u>0</u>	<u>153,023</u>	<u>142,555</u>	<u>10,468</u>
Total U.S. Department of Education		<u>1,796,622</u>	<u>750,148</u>	<u>7,295</u>	<u>760,012</u>	<u>682,094</u>	<u>85,213</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor or Pass Through Grantor <u>Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2007</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2008</u>
<u>U.S. Department of Health and Human Services</u>							
Passed through Iosco Regional Educational Service Agency as Fiscal Agent:							
Medical Assistance Program Title XIX:	93.778						
Administrative Claims 2007-2008		\$ 615	\$ 158	\$ 113	\$ 457	\$ 570	\$ 0
Total Federal Awards		<u>\$ 2,790,132</u>	<u>\$ 1,141,982</u>	<u>\$ 7,408</u>	<u>\$ 1,361,688</u>	<u>\$ 1,283,883</u>	<u>\$ 85,213</u>

OSCODA AREA SCHOOLS
Iosco and Alcona Counties, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
5. Expenditures include spoilage or pilferage.
6. Reconciliation to financial statements:

General Fund	\$ 844,643
Special Revenue Funds:	
Food Service Fund	<u>517,045</u>
	<u>\$ 1,361,688</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Drannan, CPA
Kyle E. Tmeyer, CPA
Herman A. Bertulesi

October 10, 2008

Management and the Board of Education
Oscoda Area Schools
Iosco and Alcona Counties, Michigan

We have conducted the audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Oscoda Area Schools as of and for the year ended June 30, 2008 and have issued our report dated October 10, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the School District during the audit and met with management on October 10, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the School District and the Michigan Department of Education and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

Appendix 1

Communication to Those Charged with Governance

Responsibilities Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated October 23, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Oscoda Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Oscoda Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Oscoda Area Schools' compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Oscoda Area Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Oscoda Area Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated October 23, 2007.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no difficulties during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Appendix 1

Communication to Those Charged with Governance

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of Oscoda Area Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Oscoda Area Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oscoda Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Oscoda Area Schools' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified no deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

We have noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Oscoda Area Schools' financial statements. However, if at any point in the audit we as auditors are part of Oscoda Area Schools' control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We believe that management is capable of preparing the financial statements portion of the report; however, we recommend that management look into purchasing the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the "Blue Book"), to help train and assist management with the disclosures required for the financial statements. This guide is offered through the Government Finance Officers Association website at www.gfoa.org.

CREDIT CARDS

Currently the Director of Finance reviews all credit card statements for reasonableness each month and ensures that there is supporting documentation for each purchase prior to payment. In addition, the Director of Finance prepares an expense recap each month for the Board of Education to review and approve all credit card purchases. Although these are very good controls, there is still risk of fraud that needs to be mitigated due to the Director of Finance also being in physical possession of one of the credit cards. We recommended that management implement procedures to mitigate this risk by either having the Superintendent or designee compare the items summarized in the expense recap to the actual credit card statements each month or have someone other than the Director of Finance in physical possession of the credit card.

Appendix II Management Comments

COMMUNITY EDUCATION RECEIPTS

During the audit we noted that when community education cash receipts are received, they are receipted and deposited by the Community Education Director prior to going to the Director of Finance for recording into the general ledger. Through review of the Community Education Director's files, it was noted that supporting documentation is not always kept for money received. We recommend that the Community Education Director reconcile the cash received with the various scheduling books or other supporting documentation and keep this documentation as support for all deposits.

TITLE I – ALLOCATION OF FUNDS

In the current year, the Title I School Selection worksheet used to determine attendance areas having the highest concentrations of children from low-income families was not prepared using the same date ranges for the different sets of data. For example, the total enrollment count came from February, where the total students from low-income families came from the April free and reduced lunch report. Although the allocation of funds calculations were then incorrect, the total percentage of low-income students was correct. We recommend that management ensure that the reports used to prepare the Title I School Selection worksheet are always from the same time period. This issue has been discussed with the Title I Director and was corrected in the 2008/09 Allocation of Funds report.

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation			X	
Set a maximum amount to be maintained in petty cash and present to the Board	X			
Obtain two signatures on all checks prior to sending the checks out for payment	X			